

Supreme Court, U. S.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1976

No.

76-1619

CRUTCHER-ROLFS-CUMMINGS, INC.

Petitioner

v.

SAM L. BALLARD

Respondent

PETITION FOR WRIT OF CERTIORARI

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No.

CRUTCHER-ROLFS-CUMMINGS, INC.

Petitioner

v.

SAM L. BALLARD

*Respondent***PETITION FOR WRIT OF CERTIORARI***To the Honorable Supreme Court of The United States:*

Petitioner Crutcher-Rolfs-Cummings, Inc. respectfully requests this Court to issue a Writ of Certiorari to review the judgment of the Court of Civil Appeals of the State of Texas, Thirteenth Judicial District (Corpus Christi), filed June 30, 1976. The opinion of the Texas Court of Civil Appeals is reproduced as Appendix A to this Petition and is reported at 540 S.W.2d 380. The Application for Writ of Error to the Supreme Court of Texas was refused on January 5, 1977 (Appx. R,S, 20 Tex.Sup.Ct.J. 124)

Opinion Below and Jurisdiction

The judgment (Appx. O) and opinion (Appx. A) of the Texas Court of Civil Appeals were filed on June 30, 1976.

and Petitioner's Motion for Rehearing was denied on August 30, 1976 (Appx. P). A timely-filed Application for Writ of Error to the Supreme Court of Texas (Appx. R) was refused on January 5, 1977 (Appx. S) and Petitioner's Motion for Rehearing (Appx. T) was overruled on February 23, 1977 (Appx. U). This Petition for Writ of Certiorari is being filed within 90 days of that date. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1257(3) on the ground that the trade secret law of the State of Texas dealing with patented inventions is repugnant to the Constitution and patent laws of the United States.

Questions Presented

1. Is a state cause of action based on a trade secret preempted by federal patent law when the alleged breach of confidence does not occur until *after* the secrecy of the invention is destroyed by issuance and publication of a United States patent covering the formerly secret invention?

2. May a state ignore the federal law of patent infringement in determining the scope or coverage of a United States patent in a state court action?

Constitutional Provisions

U.S. CONST., art. I, § 8, cl. 8

The Congress shall have power To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries

U.S. CONST., art. VI, cl. 2

The Constitution, and the laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the authority of the United States; shall be the supreme

Law of the Land; and the Judges in every State shall be bound thereby; any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

Statute

35 U.S.C. § 112

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

The specification shall conclude with one or more claims particularly pointing out and distinctly claiming the subject matter which the applicant regards as his invention.

. . .

Statement of the Case

This suit was brought by Sam L. Ballard against Crutcher-Rolfs-Cummings, Inc. based on theories of breach of a patent license agreement and breach of a confidential relationship for failure to pay royalties on pipe bending machines made according to the Ballard patented invention (Appx. B). The jury found that Petitioner breached the patent license agreement and a confidential relationship, and awarded Ballard actual damages of \$674,873.02 and punitive damages of \$650,000.00 for a total of \$1,324,873.02 (Appx. A). The trial court entered judgment (Appx. J) based on the jury's findings and Petitioner appealed to the Texas Court of Civil Appeals sitting at Corpus Christi (Appx. M).

The Court of Civil Appeals found the jury's findings with regard to the breach of contract and confidential relationship insufficient to support the judgment under Texas law, but affirmed the judgment of the trial court based solely on its holding that there existed a confidential relationship as a matter of law between Petitioner and Ballard because of the disclosure of a secret invention (Appx. A).

Petitioner's Motion for Rehearing to the Court of Civil Appeals was denied on August 30, 1976 (Appx. P); its Application for Writ of Error to the Supreme Court of Texas (Appx. R) was refused on January 5, 1977 (Appx. S); and its Motion for Rehearing to the Supreme Court of Texas (Appx. T) was overruled on February 23, 1977 (Appx. U).

The pertinent facts which are essential to resolution of the issues raised by Petitioner are undisputed. Ballard disclosed his invention to Petitioner in November, 1949 and a letter-agreement (Appx. C) was signed by the parties. A more formal patent license (Appx. D) based on the same invention was signed in 1954. Ballard elected to protect his invention by a United States patent and accordingly filed an application in the United States Patent Office on March 27, 1950. The Ballard patent (No. 2,708,471; Appx. B) was issued on May 17, 1955 thereby disclosing and publishing the formerly secret invention. Petitioner manufactured and sold pipe bending machines according to the Ballard patent continuously from the early 1950's through the mid-1960's at which time the Ballard invention proved commercially unsuccessful when compared to pipe bending machines made by a competitor (Crose) according to another design invented by Charles Coody and patented in 1956. By 1966 successful exploitation of the Ballard invention was no longer feasible (Appx. E) and Petitioner purchased a corporation (Crose) which was licensed to build and sell machines covered by the Coody patent. Thereafter, Petitioner, through the corporation it acquired, manufactured

and sold the Coody patented machine and paid patent royalties to the successors of the Coody patent rights. Ballard filed suit in 1968 and claimed that Petitioner owed him royalties on the revenues derived by Crose (the acquired corporation) on the machines made according to the Coody patent. Ballard was awarded a judgment for the breach of a confidential relationship based on a *secret* invention, even though the secret invention was *published* in his issued United States patent (Appx. B) more than eleven years prior to the date the alleged breach first occurred in 1966.

The errors of the trial court were preserved in Petitioner's objections to the court's charge, Motion for New Trial, Motion for Judgment Non Obstante Veredicto, and Brief on Appeal of the Court of Civil Appeals. Those errors were further preserved, and additional errors of the Court of Civil Appeals were preserved, in Petitioner's Motion for Rehearing to the Court of Civil Appeals, Application for Writ of Error to the Supreme Court of Texas, and Motion for Rehearing to the Supreme Court of Texas. The pertinent portions of the aforesaid documents in which Petitioner has preserved the error which Petitioner has raised before this Court are appended to this Petition in a separately bound volume for the Court's convenience.

Reasons for allowing the Writ

I. State trade secret law covering the use of patentable inventions is preempted by federal patent law when an inventor elects to protect his invention by securing a United States patent, assuming there has been no breach of confidence before publication of the secret invention in an issued patent.

Federal preemption of state trade secret law by federal patent law has been considered recently by this Court in *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974). In *Kewanee*, the Court concluded that state trade secret law is not preempted in the case of an invention which is kept secret, albeit patentable, but which is not patented.

The *Kewanee* decision does not answer the questions raised by Petitioner because it dealt with an unpatented invention whereas here we are dealing with a patented invention. However, *Kewanee* nevertheless sets out appropriate guidelines for analyzing this case. Under the test adopted in *Kewanee*, state law is void under the Supremacy Clause (U.S. CONST. art. VI, cl. 2) when it "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." 416 U.S. at 479.

The Constitutional provision on which our patent statutes are founded states the objectives to be "to promote the Progress of Science and the useful Arts." U.S. CONST. art. I, § 8, cl. 8. The method for promoting the progress of science embodied in the patent statute was best stated by this Court in *Universal Oil Products Co. v. Globe Oil & Refining Co.*, 322 U.S. 471, 484 (1944) in which the Court said:

As a reward for inventions and to encourage their disclosure, the United States offers a seventeen-year monopoly to an inventor *who refrains from keeping his invention a trade secret*. But the *quid pro quo* is disclosure of a process or device in sufficient detail to enable one skilled in the art to practice the invention once the period of the monopoly has expired; and the same precision of disclosure is likewise essential to warn the industry concerned of the precise scope of the monopoly asserted. (emphasis supplied).

Thus, once the inventor elects to patent his invention he is obliged to fully disclose it when his patent issues and thereafter rely solely on his patent to protect his previously secret invention. As Judge Learned Hand held in *Conmar Prod. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150, 156 (2d. Cir. 1949), "Thus, any possible [trade secret] liability for exploiting whatever the patents in suit disclosed, ended with their issue."

The Supreme Court of Pennsylvania recently considered this issue in *Felmlee v. Lockett*, 351 A.2d 273 (Pa. 1976). In *Felmlee*, plaintiff brought suit against defendant for breach of a confidential relationship arising from plaintiff's disclosure to defendant of confidential design and chemical formulation for fishing lures. Plaintiff sought and obtained a U.S. patent for the design of his lure but not for the chemical formulation. In recognition of the distinction between an invention which is patented and one which is maintained in secrecy, the Pennsylvania Supreme Court held that plaintiff was entitled to recover against defendant for its wrongful use or disclosure of the secret chemical formulation, but that no legally protectable trade secret could exist as to the design which was patented. The court said:

35 U.S.C. § 112 provides that: "The specification [required to be appended to a patent application] shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains . . . to make and use the same . . ." *The result of this section and the very nature of the patent publication have been consistently held to work a destruction of any trade secret disclosed therein*. We are thus precluded from awarding the appellees equitable relief on this point. (citing cases) 351 A.2d at 278 (emphasis supplied).

Reference is made to the volume of authority cited by the *Felmlee* court (351 A.2d at 278, n.5) supporting this position. The basis for the *Felmlee* holding, and the position urged by Petitioner, is that an inventor must elect to protect his invention either as a trade secret or under the U.S. patent laws, but that election to pursue patent protection and the public disclosure of the invention by issuance of the patent extinguishes trade secret protection. *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933), R. MILGRIM, *TRADE SECRETS*, §8.02[1], [2] (1976).

Under Texas trade secret law, one who learns a trade secret from its owner is obligated not to use and not to disclose the secret to others without the owner's permission. *Hyde Corp. v. Huffines*, 314 S.W.2d 763 (Tex. 1958). In this case, Petitioner is not accused of breaching any confidence based on the use or disclosure of the secret invention *before publication* of the invention in an issued patent. The disclosure of the allegedly secret invention to Petitioner by Ballard occurred in 1949, the formerly secret invention was published when Ballard's patent issued in 1955, and Ballard's cause of action against Petitioner is for a breach of confidence which first occurred in 1966 (Special Issue 3, Appx. J-3), some eleven years after the formerly secret invention was disclosed in his patent. Thus, Texas trade secret law as applied in this case to a *patented* invention would obligate Petitioner to not use or disclose the Ballard invention to others, even after a patent on the invention issued. Therefore, Texas trade secret law is a direct obstacle to and frustrates the primary objective of federal patent law, that of full and complete disclosure of the invention in the patent, and this state law is preempted pursuant to the *Kewanee* test. Having elected to protect his invention by a patent and thereby publicly disclosing it, the inventor waives any claim to trade secret protection after the issuance of his patent.

In *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), a portion of state contract law (licensee-estoppel) fell because it frustrated the purposes and objectives of the federal patent laws. In this case, a portion of state trade secret law (protection of a once secret invention after it has been disclosed in an issued patent) must necessarily fall for the same reason. See Stern, *A Reexamination of Preemption of State Trade Secret Law After Kewanee*, 42 Geo. Wash. L. Rev. 927 (1974).

II. State trade secret law which extends the scope of protection for a patented invention beyond that granted by the patent is preempted by federal patent law.

Ballard sought royalties from Petitioner beginning in 1966 on machines which were made according to the Coody patent by a corporation (Croze) acquired by Petitioner in 1966. At the trial Petitioner took the position that Petitioner was not obligated to pay Ballard a royalty on any machine which was not within the scope of his (Ballard's) patent. Special Issue No. 1 as submitted to the jury alludes to the Croze machines and certain of the claims of the Ballard patent, but was fatally defective in that it did not comply with the well established tests of patent infringement in many respects. For example, Ballard attempted to expand the scope of his patent to include machines made according to the Coody design which were manufactured by Petitioner. Petitioner raised the common defense known as "file wrapper estoppel" which prevents a patent owner from taking a position at trial in order to find infringement which is contrary to the position which he urged before the Patent Office in order to induce the grant of the patent. The trial court refused to allow Petitioner to submit an issue to the jury on this defense (Appx. H) thereby improperly charging the jury with respect to the issue of patent infringement.¹ The Court of Civil Appeals refused to review the failure of the trial court to properly submit the patent infringement issue and said

¹ Also, Petitioner urged before the Court of Civil Appeals that the infringement issue was defective because it (1) required a comparison of the machines made according to the Ballard patent with the accused machines, rather than a comparison of the claims of the Ballard patent with the accused machines, and (2) asked the jury if the accused machines were "substantially in accordance with" the machines covered by the claims of the Ballard patent, rather than asking the jury to find that the accused machines were within the scope of the patent claims.

The technicalities of federal patent laws are not determinable of Ballard's rights under the subject contract and confidential relationship. (Appx. A-16)

This holding by the Court of Civil Appeals effectively broadened Ballard's rights in his invention beyond the scope of his rights under his United States patent. Action such as this is foreclosed to the states since the law relating to patented inventions has been preempted by the federal patent statutes.

This Court in *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964), recently considered an attempt by a state court to prevent copying of a pole lamp on which the patent was invalid. In concluding that the states' power to prohibit copying of the pole lamp was preempted this Court said:

When state law touches upon the area of these federal statutes, it is "familiar doctrine" that the federal policy "may not be set at naught, or its benefits denied" by the state law. [citation omitted] 376 U.S. at 229.

. . .

Obviously a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents. . . . *Just as a State cannot encroach upon the federal patent laws directly, it cannot under some other law such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent law.* 376 U.S. at 231 (emphasis supplied).

Likewise, in a companion case, this Court in *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), held that state unfair competition law which gives relief against the copying of unpatented industrial designs was preempted by federal law.

Subsequent to *Sears and Compco*, this Court in *Brulotte v. Thys Co.*, 379 U.S. 29 (1964), found that the enforceability of a contract, otherwise valid under state law, was preempted to the extent that it required the payment of royalties beyond the expiration of the licensed patents.

Similarly, in *Lear v. Adkins, Inc.*, 395 U.S. 653 (1969), a patent license obligated the licensee not to contest the validity of the patent, a familiar provision enforceable under California law as well as that of other states. This Court held that "... federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent" and found the provision of the contract dealing with licensee estoppel to be preempted. 395 U.S. at 668.

Thus, *Sears, Compco, Brulotte* and *Lear* require that a state afford protection for an invention only to an extent consistent with the proper scope of a valid United States patent. The proper scope of a patent is determined by the rules governing the determination of infringement of the patent, and any part of the invention not covered by the patent is dedicated to the public upon issuance of the patent. It is the claims of the patent which measure the scope of the patented invention, and the rules of patent infringement determine whether or not any of the claims cover the accused device. *Motion Picture Patents Co. v. Universal Film Manufacturing Co.*, 243 U.S. 502 (1917). It has been uniformly held by courts in states other than Texas that a device is within the scope of a patent only if that patent has been infringed as the doctrine of infringement has evolved in the federal courts. *H. M. Chase Corp. v. Idaho Potato Processors, Inc.*, 529 P.2d 1270 (Idaho 1974); *American Photocopy Equipment Co. v. Ampto, Inc.*, 198 A.2d 469 (N.J. Super Ct. App. Div. 1964); *Adkins v. Lear, Inc.*, 435 P.2d 321, (Calif. 1967), *rev'd on other grounds*,

395 U.S. 653 (1969); *Perbal v. Dazor Manufacturing Corp.*, 436 S.W.2d 677 (Mo. 1968). As stated in *American Photocopy*,

It is settled that the test of whether machines sold by a patent licensee come within the coverage of the patent, for purpose of a suit for royalties, is the same as that employed in a patent infringement suit. 198 A.2d at 475.

The failure of the Texas courts to find patent infringement by applying "the technicalities of federal patent law" effectively broadens the protection given the Ballard invention by his patent and thereby conflicts with purposes and objectives of the federal patent laws.

Conclusion and Prayer

The issues raised by the Petition are of national economic importance and merit consideration and resolution by this Court for the same reasons that this Court granted the petitions in *Sears*, *Compco*, *Lear* and *Kewanee*. The only critical issue left unresolved by these cases, state treatment of *patented* inventions, is the issue presented by this Petition. Unless this Court determines the balance between state trade secret law and federal patent law once and for all, *patented* inventions will receive a varying scope of protection in different states depending on state trade secret law. This situation frustrates and is contrary to the purposes and objectives of federal law dealing with patented inventions. It is respectfully submitted that this Petition should be granted for these reasons.

WHEREFORE, premises, argument and authorities considered, Petitioner prays that its Petition for Writ of Certiorari be granted.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that the foregoing PETITION FOR WRIT OF CERTIORARI has been served on plaintiff-respondent by delivering three copies to his attorney of record, Jack W. Hayden, Suite 1270 Park Tower South, 1333 West Loop South, Houston, Texas 77027, this 20th day of May, 1977.

A. A. Evans